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Joint Economic Committee Examines Japan's Economic Challenge

The Joint Economic Committee took a close look at U.S.-Japan economic relations in a series of hearings October 16 and 18. The centerpiece of the meetings was a soon-to-be released study initiated by the committee, Japan's Economic Challenge, which suggests the weighty U.S.-Japan trade imbalance is likely to continue into the next decade. Witnesses outlined several of the report's conclusions and cautioned committee members that Japan's growing economic power could continue to present serious challenges to the United States.

The first session concentrated on government, business and labor relations in Japan and took a close look at factors believed to be behind Japan's economic success. Dick Nanto of the Congressional Research Service, attributing much of Japan's economic power to its corporations, focused on the role of keiretsu (large corporate groups linked by cross-stock ownership and business dealings) in Japan's business environment. In the Structural Impediments Initiative talks U.S. policymakers cited keiretsu relationships and the anticompetitive business practices to which they often give rise as an underlying

office of Dewey, Ballantine, Bushby, Palmer and Wood, suggested routes for both Tokyo and Washington to follow. The Japanese government should bolster the international trading system by undertaking domestic reforms to expand access to its markets and by playing a larger role in strengthening the General Agreement on Tariffs and Trade, Mr. Wolff argued. He added that Tokyo also should take more responsibility for supporting the economic growth of developing countries. Mr. Wolff's suggestions for improving U.S.-Japan relations included: employing "results-oriented" policies, conducting an ongoing review of policy problem areas and assessing the implementation of current trade agreements.

Edward Lincoln, senior fellow at the Brookings Institution, termed managed trade an undesirable but possibly necessary strategy if the United States is to counter what he described as Japan's high resistance to many imports. He added that Washington needs to implement a policy that shows where the nation is going and how it will get there, but, Mr. Lincoln added, it should not mimic Japan's industrial policy. The panelists concurred that the trade relationship between the United States and Japan may deteriorate again and probably will not improve. They also agreed, however, that it is important to work toward progress by continuing trade negotiations.

Rep. Lee Hamilton (D, Ind.), a chairman of the committee, indicated that the conclusions and the recommendations presented in the hearings and in the upcoming study on Japan's economic challenge would help determine where the issue should rank on Capitol Hill's future agenda. Given the prospects for a recession and continued constituent pressures to find both the sources of and the solutions for America's economic woes, the upcoming session of Congress is likely to keep its sights trained on Japan.

Margo Grimm

Japan's Trade Surplus Dips Slightly In Third Quarter

Given the objective of a smaller trade surplus, at least the numbers moved in the right direction. That minimalist conclusion is the best that can be said of Japan's latest customs-clearance trade statistics for the July-September quarter. For those three months Japan's trade surplus in dollar terms dropped a modest 4.8 percent compared with the year-earlier period (see Table). The yen averaged almost the same value against the dollar in both quarters; as a result, the decline in the yen-denominated surplus was on the same order of magnitude as the drop in dollar terms. However, the weakness of the Japanese currency against the dollar during the spring, when it took nearly 160 yen to equal a dollar, may have had a delayed effect in causing higher exports -- and restrained imports -- compared to what would have occurred with a stronger yen during the earlier period.

Further clouding assessments of the long-term direction of Japan's trade surplus were two unrelated and unpredictable events. The July-September figures showed only the initial effects of the run-up in oil prices linked to the Persian Gulf crisis. Compared to an average import price of $17.18 a barrel in 1989's third quarter, Japanese imports of crude during the July-September period averaged $18.13. With crude oil selling on the world spot market for nearly $30 a barrel toward the end of October, the average import price is likely to be higher in future trade figures.

Japan's Total Trade in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1985	$175,638	3.2%	$129,539	-5.1%	$46,099
1986	209,151	19.1	126,408	-2.4	82,743
1987	229,221	9.6	149,515	18.3	79,706
1988	264,917	15.6	187,354	25.3	77,563
1989	275,175	3.9	210,847	12.5	64,328
1988: I	60,279	17.1	44,505	39.2	15,774
II	65,179	14.5	47,260	29.9	17,919
III	67,169	16.1	47,258	23.2	19,911
IV	72,291	14.8	48,331	12.9	23,960
1989: I	68,227	13.2	51,142	14.9	17,085
II	67,602	3.7	51,292	8.5	16,310
III	69,595	3.6	53,048	12.3	16,547
IV	69,751	-3.5	55,364	14.6	14,387
1990: I	66,718	-2.2	54,303	6.2	12,416
II	67,244	-0.5	53,900	5.1	13,344
III (p)	72,186	3.7	56,431	6.4	15,755

Japan's Total Trade in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1985	Y41,956	4.0%	Y31,085	-3.8%	Y10,871
1986	35,290	-15.9	21,551	-30.7	13,739
1987	33,315	-5.6	21,737	0.9	11,578
1988	33,939	1.9	24,006	10.4	9,933
1989	37,823	11.4	28,979	20.7	8,844
1988: I	7,713	-3.1	5,688	14.7	2,025
II	8,163	0.1	5,918	13.6	2,246
III	8,924	4.9	6,280	11.3	2,644
IV	9,139	5.1	6,121	3.3	3,018
1989: I	8,705	12.9	6,516	14.6	2,189
II	9,222	13.0	6,997	18.2	2,225
III	9,911	11.0	7,547	20.2	2,363
IV	9,985	9.3	7,919	29.4	2,067
1990: I	9,767	12.2	7,929	21.7	1,838
II	10,451	13.3	8,383	19.8	2,067
III (p)	10,651	7.5	8,347	10.6	2,304

Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1985	$65,278	8.9%	$25,793	-4.0%	$39,485
1986	80,456	23.3	29,054	12.6	51,401
1987	83,580	3.9	31,491	8.4	52,090
1988	89,634	7.2	42,037	33.5	47,597
1989	93,189	4.0	48,246	14.8	44,943
1988: I	19,859	10.3	10,090	44.4	9,769
II	21,610	2.0	10,458	37.8	11,152
III	23,056	6.6	10,667	29.3	12,389
IV	25,109	10.3	10,821	25.0	14,288
1989: I	22,726	14.4	11,599	15.0	11,127
II	22,997	6.4	12,064	15.4	10,933
III	24,117	4.6	12,462	16.8	11,655
IV	23,347	-7.0	12,120	12.0	11,227
1990: I	21,664	-4.7	12,728	9.7	8,936
II	20,938	-9.0	12,842	6.5	8,096
III (p)	22,927	-4.9	12,708	2.0	10,219

Japan's Trade with the United States in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1985	Y15,583	9.6%	Y6,213	-2.4%	Y9,369
1986	13,564	-13.0	4,918	-20.9	8,646
1987	12,148	-10.4	4,582	-6.8	7,566
1988	11,487	-5.4	5,388	17.6	6,099
1989	12,816	11.6	6,632	23.1	6,184
1988: I	2,541	-8.8	1,290	19.1	1,251
II	2,706	-10.8	1,309	20.5	1,397
III	3,063	-3.6	1,418	16.7	1,645
IV	3,177	0.9	1,371	14.4	1,806
1989: I	2,899	14.1	1,478	14.6	1,421
II	3,139	16.0	1,648	25.9	1,491
III	3,436	12.2	1,773	25.0	1,663
IV	3,342	5.2	1,733	26.4	1,609
1990: I	3,171	9.4	1,859	25.8	1,312
II	3,254	3.7	1,997	21.1	1,257
III (p)	3,382	-1.6	1,882	6.2	1,500

Another unusual event also influenced the latest trade figures. In connection with the minting of coins marking the formal accession of Japan's new emperor, gold imports in September rose 4.5-fold compared to their level a year earlier. These purchases were large enough to knock $657 million off the trade surplus for the month. Without increased gold imports and higher oil prices, Japan's trade surplus would have been flat or registered a small increase during the latest period. For Americans worried about the persistent bilateral imbalance with Japan, the news was substantially better. The dollar-denominated surplus with the United States dropped 12.3 percent to $10.2 billion.

Do the latest figures represent merely a pause in the reduction of Japan's trade surplus? Or will the gap between exports and imports start widening? Continuation of three recent trends could cause Japan's surplus to drop substantially. First, the dollar could continue to weaken. The dollar's strength this past spring already seems like ancient history; as of late October the American currency was poised to establish a new low against the yen. As the dollar weakens Japanese exports to the United States will turn sluggish, a phenomenon well-documented in recent years despite public perceptions to the contrary. The cutback will be even more rapid if the U.S. economy slows substantially; the latest U.S-Japan trade figures already may reflect weak U.S. demand to some extent. Finally, if oil remains at $30 a barrel or more, Japan's trade surplus in coming months could drop by more than 20 percent over year-earlier levels, other factors being equal.

On balance, then, the latest trade figures reflect little fundamental change from previous quarters. However, recent events suggest that big reductions in Japan's surplus could begin showing up over the next several months.

Douglas Ostrom

Japan-EC Relations: More Ups And Downs

As the tempo quickens in the European Community's move to a more united economy in 1992, Japan's relations with the EC continue to exhibit the familiar mosaic of progress in some areas but problems in others. Stimulated by the 1992 unity plan, the new economic opportunities in Eastern Europe and Tokyo's attempts to play a more active role in global political affairs, bilateral relations are being elevated to new levels.

Japanese access to the car markets of EC members has been a highly sensitive bilateral and intra-EC issue for years. While seven of the 12-member Community have no restrictions on the import of Japanese cars, five have stringent quotas. Japanese car makers, for example, have 40 percent of the Irish market, 20 percent of Belgian sales and 15 percent of the West German market but face a limit of 3 percent in France, 1.5 percent in Italy and just 1.2 percent in Spain. Beyond the question of imports from Japan, EC members have been split on how to handle the growing number of cars produced within the EC by affiliates of Japan's motor vehicle makers. Negotiating a common stance on Japanese car sales has tested the community's commitment to economic unity and to free trade principles.

After months of talks the EC proposed in late September that a five-year phaseout of quotas on Japanese car imports begin after 1992. During that transitional period Japan's share of the total EC car market would be allowed to